

Message Text

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ACTION EB-11

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C O N F I D E N T I A L MEXICO 2591

E.O. 11652 GDS

TAGS: ETRD, EAGR, MX

SUBJ: ALLENBERG COTTON COMPANY CONTRACT PROBLEMS

REF: STATE 52881

PASS: AGRICULTURE AND COMMERCE

1. EMBASSY CONTACTED BY HERB BROWN, LOCAL REP OF ALLENBERG CO., CONCERNING PROBLEM NON-DELIVERY OF COTTON (SEE REFTEL). THERE IS NO QUESTION ALLENBERG HAS LEGITIMATE COMPLAINT. EMBASSY HAS INITIATED CONVERSATIONS WITH BANCO EJIDAL (GOM BANK IN MEXICO CITY) AS BANCO AGRARIO LA LAGUNA, S.A. DEFAULTING ON THE ALLENBERG CONTRACTS. LATTER IS AFFILIATE OF BANCO EJIDAL. TOP MANAGEMENT OF BANCO EJIDAL IS INVESTIGATING AND HAS PROMISED TO CONTACT EMBASSY PROMPTLY TO EXPLORE POSSIBLE WAYS OF RESOLVING PROBLEM WITH ALLENBERG. HOPEFULLY, WE WILL BE ABLE TO GET LOCAL ALLENBERG REP AND APPROPRIATE GOM OFFICIALS TOGETHER SOON TO RESOLVE DIFFERENCES.

2. INITIAL CONTACT WITH BANCO EJIDAL REP WAS ENCOURAGING. PAST EXPERIENCE, HOWEVER, WITH BANK ON SIMILAR MATTERS (I.E. DEFAULTED HENEQUEN CONTRACTS) HAS PROVED FRUSTRATING AND FUTILE. IN INITIAL CONVERSATIONS, EMBASSY POINTED OUT THAT USG STRONGLY SUPPORTS PRINCIPLE OF CONTRACT COMPLIANCE AND HOPES GOM WILL FIND WAY TO REACH AGREEMENT WITH ALLENBERG. POINT ALSO MADE THAT MEXICAN REPUTATION ON INTERNATIONAL SCENE COULD BE SEVERELY COMPROMISED BY CONTINUED NONCOMPLIANCE OF CONTRACTS, I.E., COTTON, HENEQUEN,
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HONEY, CATTLE AND COCOA. BANK OFFICIALS READILY AGREE WITH LATTER

BUT POINT OUT THEY HAVE SERIOUS POLITICAL PROBLEM IN FORCING GROWERS (MANY WHO ARE EJIDATERIOS) INTO MEETING CONTRACTS AT PRICES CONSIDERABLY LOWER THAN CURRENT WORLD PRICES.

3. DETAILS OF ALLENBERG CASE AS FOLLOWS:

IN JULY 1972 ALLENBERG SIGNED CONTRACT WITH BANCO AGRARIO DE LA LAGUNA, S.A. OF TORREON, COAHUILA, FOR 20,000 BALES COTTON FROM 1973-74 CROP. PRICES FOR COTTON FOB TORREON VARIED FROM 327 PESOS PER QUINTAL TO 500 PESOS, DEPENDING ON QUALITY. FOLLOWING SIGNING OF CONTRACT, COTTON PRICES ROSE RAPIDLY REACHING A PEAK OF 950 PESOS PER QUINTAL AND ARE NOW AROUND 800-825 PESOS PER QUINTAL BASIS QUALITY, STRICT MIDDLING 1-1/16 INCHES. DUE THIS RISE IN PRICES THERE HAS BEEN CONSIDERABLE DEFAULTING OF CONTRACTS BY GROWERS WHICH LED TO BITTER COMPLAINTS BY SHIPPERS AND LOCAL TEXTILE MILLS TO GOM. ON OCT. 6, GOM STEPPED IN AND PRESENTED A "SUGGESTED" AGREEMENT TO THE SHIPPERS AND MILLS WHICH MOST SIGNED. THIS AGREEMENT FAVORED PRODUCERS SINCE SHIPPERS AND MILLS AGREED TO ACCEPT LIGHTER WEIGHT BALES (190 KILOS RATHER THAN THE CUSTOM-ARY 225 KILOS) AND TO PAY THE STRICT MIDDLING CONTRACT PRICE FOR THE 190 KILOS REGARDLESS OF THE ACTUAL QUALITY DELIVERED. FOR ANY COTTON DELIVERED OVER THE 190 KILOS, THE SHIPPERS AND MILLS HAD TO PAY A MINIMUM OF 800 PESOS PER QUINTAL FOR STRICT MIDDLING 1-1/15 INCHES. THIS GOM IMPOSED AGREEMENT COST ALLENBERG (AND OTHER SHIPPERS) A CONSIDERABLE SUM BUT THEY ACCEPTED THE COMPROM-IZE. OF PARTICULAR IMPORTANCE IS THE LAST PARAGRAPH OF THIS AGREE-MENT WHICH STATES THAT GOM WILL TAKE ALL NECESSARY LEGAL STEPS TO ASSURE THAT PRODUCERS WILL COMPLY WITH THEIR CONTRACTS. THIS AGREEMENT WAS SIGNED BY SEVERAL GOVERNMENT OFFICIALS INCLUDING THE THEN MINISTER OF AGRICULTURE, MANUEL BERNARDO AGUIRRE, AND ASSISTANT SECRETARY FOR COMMERCE, ELISEO MENDOZA BERRUETO.

4. THE CURRENT ALLENBERG PROBLEM IS THAT DESPITE THE ABOVE AGREE-MENT THE COMPANY HAS BEEN INFORMED IN WRITING BY THE BANCO AGRARIO DE LA LAGUNA THAT DUE TO A POOR COTTON CROP IN THE TORREON AREA THE BANK DOES NOT HAVE SUFFICIENT COTTON TO FILL ALLENBERG'S CONTRACT AND THEREFORE WILL ONLY DELIVER 16,000 BALES OF THE 20,000 CONTRACTED. ALLENBERG HAS A LEGALIZED DOCUMENT WHICH PROVES THAT IN FACT ENOUGH COTTON WAS GINNED AND DELIVERED TO THE BANCO AGRARIO FOR IT TO MEET 89 PERCENT OF ITS CONTRACT

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COMMITMENTS. IT APPEARS THAT THE BANCO AGRARIO HAS BEEN PRESSURED BY THE GROWERS NOT TO DELIVER PART OF THEIR CONTRACTED COTTON IN ORDER TO SELL THIS COTTON AT HIGHER PRICES. ALLENBERG SUSPECTS THAT THE 4,000 BALES OWED IT MAY HAVE ALREADY BEEN SOLD. IF THIS IS THE CASE, THE COMPANY INSISTS ON SOME OTHER COMPENSATION FROM THE BANK.

5. ALLENBERG IS A RELATIVELY MINOR FACTOR IN THE TOTAL COTTON

TRADE PICTURE IN MEXICO. THIS FIRM HANDLES ABOUT 40,000 OUT OF A
TOTAL MEXICAN PRODUCTION OF 1.6 MILLION BALES. THE OTHER MAJOR
HANDLERS, SUCH AS ESTEVE BROS. AND COOK, ARE HAVING THE SAME
PROBLEMS AS ALLENBERG, BUT ON A LARGER SCALE. BROWN APPROACHED
THE LOCAL COOK AND ESTEVE BROS. REPS ABOUT MAKING A JOINT REPRES-
ENTATION TO THE USG, BUT THEY DECLINED.
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